



Freight Factoring Glossary

49 Terms to Know



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Freight factoring is a critical part of the transportation industry and is widely used by trucking companies of all sizes to support their businesses.

Use this glossary to brush up on the basics, deepen your knowledge of factoring, and confidently navigate a discussion with a factoring company.

3 Important Terms to Define Before Proceeding with the Glossary:

Factoring Company	<i>A company that provides factoring services. They pay the client, and they collect payment from the customer.</i>
Client	<i>The trucking company that sells their invoices to the factoring company in exchange for immediate payment.</i>
Customer	<i>A company that uses the transportation services of the client, also known as the debtor.</i>

Freight Factoring Glossary:

A

A/R Aging Schedule	<i>A table or list showing the amount of debt owed to the client by each of their customers, and how overdue the debt is.</i>
Accounts Receivable	<i>The money owed to the client by their customers for goods/services provided.</i>
Accounts Receivable Financing	<i>When the client sells its accounts receivables to a factoring company in exchange for immediate cash. Also known as “factoring.”</i>
ACH Transfer	<i>(Automated clearing house) is a system between banks that make transferring money quick and easy.</i>
Advance Rate	<i>The percentage of an invoice that will be paid to the client once it is sold to a factoring company.</i>

B

Bad Debt	<i>Money that is likely to remain uncollected from a customer.</i>
Bill of Lading	<i>A document issued by a shipper that describes the goods being shipped, the quantity of goods, and where they are being shipped to. A Bill of Lading (BOL) will become a Proof of Delivery (POD) once it is signed by the receiver of the goods confirming delivery.</i>
Buy Back Period	<i>In recourse factoring, it is the amount of time that a factoring company allows a customer to pay an open invoice. Also known as the “recourse period.”</i>

C

Carrier	<i>A business that transports goods as a service, such as a trucking company.</i>
Cash Advance	<i>A service provided by factoring companies that allows the client to get paid a portion of their invoice before the load is delivered. Sometimes known as a “fuel advance.”</i>
Charge-back	<i>A deduction made by the factor from the advance payment or reserve to cover disputes, returns, or other issues with the invoice.</i>
Collections	<i>The process of pursuing payments from a customer for invoices due.</i>
Concentration	<i>Refers to the ratio of loads hauled for any given customer. A heavy concentration would look like the majority of business done with only one or two customers.</i>
Consignee	<i>The entity who is financially responsible for the goods being shipped, and is usually the one receiving the goods.</i>

Consignor	<i>The entity responsible for initiating a shipment of goods, also known as the “shipper.”</i>
Credit Limit	<i>The financial limit that a factoring company will place on each of the client’s customers, determined by a customer’s credit score, concentration ratio, and other considerations.</i>
Credit Score	<i>A score used as an indicator of a company’s financial health and their ability to pay bills. Factoring companies use this to help determine a customer’s credit limit.</i>
Current Assets	<i>Also known as short-term assets, these are assets owned by a company that can be quickly turned into cash within 12 months.</i>
Current Liabilities	<i>The short-term financial obligations owed by a company, due within 12 months.</i>

D

Debtor	<i>Also known as the customer, the company that owes money.</i>
Dedicated Account Manager	<i>The client’s primary contact with a factoring company that maintains a good relationship with the client to meet their needs and improve their experience.</i>
Direct Deposit	<i>Also known as “ACH.”</i>
Discount Rate	<i>The percentage of a client’s invoice rate at which a factoring company will charge for their factoring services. Also called a “factoring fee.”</i>

F

Factoring Fee	<i>The fee charged by the factoring company which is usually a small percentage of the gross value of an invoice. Sometimes called a “discount rate.”</i>
Freight Factoring	<i>A specific type of invoice factoring where a trucking company sells its invoices to a factoring company in exchange for immediate funds, and the factoring company bills the customer and waits to be paid.</i>
Fuel Advance	<i>A service provided by factoring companies that allows the client to get paid a portion of their invoice before the load is delivered in order to pay for fuel to finish hauling the load. Sometimes known as a “cash advance.”</i>

I

Invoice	<i>A document created by the client outlining the cost of services provided that must be paid by the customer.</i>
Invoice Verification	<i>The process of ensuring the details of an invoice are accurate, usually done by cross-referencing with other documents such as the rate confirmation and lumper receipts.</i>

L

Liquidity	<i>Refers to the ability to cover short-term obligations, such as insurance, fuel, payroll, etc.</i>
Load Confirmation	<i>Also known as a “rate confirmation” it is typically what a customer sends to a trucking company which outlines the load details and includes the agreed-upon cost of transportation.</i>

M

Maintenance	<i>The ongoing effort to conserve the original condition of an asset, such as a semi-truck, for as long as possible.</i>
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N

Non-Recourse Factoring	<i>A factoring arrangement where the factor assumes the risk of non-payment by the customer and absorbs any losses incurred as a result.</i>
Notification of Assignment (NOA)	<i>A document sent to a client’s customers to give notice that the factoring company will be managing the invoice and has the right to payment.</i>

O

Operating Cash Flow	<i>The measure of the cash generated by a company’s normal business operations shows the company’s ability to generate sufficient cash to maintain and grow its operations.</i>
Opportunity Cost	<i>The potential business lost out on due to insufficient cash to run operations.</i>

R

Rate Confirmation	<i>A document that includes all the agreed-upon rates for the transportation services provided, signed by both the customer and the carrier.</i>
Recourse Factoring	<i>The most common form of factoring where the trucking company is responsible for repaying the factor for any unpaid invoices or charge-backs.</i>
Reserve Account	<i>A small portion of funds held back by the factoring company that act as a savings account for the client in case a customer fails to pay an invoice.</i>
Resource Period	<i>In recourse factoring, it is the amount of time that a factoring company allows a customer to pay an open invoice. Also known as the “buy back period.”</i>

S

Shipper	<i>The entity responsible for initiating a shipment, also called the “consignor.”</i>
Spot Factoring	<i>A one-time transaction where a client will receive an advance on a single invoice instead of committing to a relationship with a factoring company.</i>

U

Underwriting	<i>The process a factoring company takes to review and assess the financial risk of working with a client and extending credit to the client’s customers, and to determine the level of risk they are willing to take on.</i>
Uniform Commercial Code (UCC)	<i>A set of laws governing commercial transactions.</i>

W

Wire Transfer	<i>An electronic transfer of funds that is generally processed on the same day they are initiated and can be received within a few hours. They are faster but slightly more expensive than ACH.</i>
Working Capital	<i>The money a business uses to fund its day-to-day operations, such as fuel, insurance, payroll, and maintenance. Calculated as current assets minus current liabilities.</i>